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E.O. 11652: N/A
TAGS: EFIN, ECON, OECD
SUBJECT: COMMENTS ON CPE/TWP DRAFT PAPER ON "THE INVESTMENT
OF SURPLUSES BY OIL PRODUCERS: POSSIBLE PROBLEM
AREAS"

REF: OECD PARIS 16195

1. MISSION REQUESTED TO PASS TO SECRETARIAT FOLLOWING
COMMENTS ON SUBJECT PAPER. BRUSSELS PLEASE PASS TO VAN
YPERSELE.

2. U.S. BELIEVES SECRETARIAT HAS DONE GOOD JOB ON THIS
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PAPER AND THAT PAPER GENERALLY REFLECTS CONSENSUS OF TWP

DISCUSSIONS. OUR COMMENTS FOR THE MOST PART REPRESENT EFFORTS TO IMPROVE PAPER AT THE MARGIN. COMMENTS ARE KEYED TO PARAGRAPH NUMBERS OF SECRETARIAT DRAFT.

PARA 3. SECRETARIAT MAY WISH TO CHECK FIGURES FOR PERCENT OF OECD GNP WHICH TRANSFERS OF REAL RESOURCES TO OPEC REPRESENT. FOR EXAMPLE, FOR 1974, WE WOULD EXPECT A FIGURE SOMEWHERE AROUND TWICE THE SECRETARIAT FIGURE. ALSO, SECOND SENTENCE THIS PARAGRAPH SHOULD BE RE-DRAFTED AND THIRD SENTENCE DROPPED TO REMOVE IMPLIED CONCLUSION THAT OECD COUNTRIES SHOULD, IN THEIR OWN INTEREST, SEEK TO ACCELERATE THE TRANSFER OF REAL RESOURCES TO OPEC. WHILE QUESTION WAS RAISED, WE DID NOT UNDERSTAND THAT TWP HAD

COME TO ANY CONCLUSION WITH RESPECT TO WHETHER SPECIAL EFFORTS SHOULD BE MADE TO EXPAND EXPORTS TO OPEC BY ANY OECD COUNTRIES.

PARA 4. WE ARE PUZZLED BY MEANING OF LAST SENTENCE THIS PARA, WHICH MAY BE GARBLED. IN ANY EVENT, THIS PARA SEEMS TO US STILL SOMEWHAT OPTIMISTIC ON THE PROSPECTS FOR AND POSITIVE ON THE DESIRABILITY OF ACCELERATING THE TRANSFER OF REAL RESOURCES TO OPEC. PARA SHOULD PROBABLY ALSO NOTE THAT OVER TIME THE PROSPECT IS THAT STRUCTURAL LOW ABSORBERS WILL PROGRESSIVELY BECOME DOMINANT RESERVE GAINERS--AND THERE IS ALMOST NO POSSIBILITY OF AFFECTING THAT TOTAL BY SELLING MORE GOODS AND SERVICES TO THE HIGH ABSORBERS.

PARA 6. WE BELIEVE A RE-DRAFT OF THIS PARA ALONG FOLLOWING LINES MIGHT BE CLEARER: QTE THE GREATER PART OF OPEC SURPLUSES IS CURRENTLY HELD IN OECD COUNTRIES IN THE FORM OF RELATIVELY LIQUID CLAIMS ON COMMERCIAL BANKS OR GOVERNMENT SECURITIES. THE GROWTH OF THESE LIABILITIES AT BANKS, AND THE POTENTIAL FOR SHIFTS OF SUCH FUNDS AMONG BANKS, AND COUNTRIES, MUST BE TAKEN INTO ACCOUNT BY THE AUTHORITIES IN THEIR DOMESTIC MONETARY MANAGEMENT. THIS DOES NOT, HOWEVER, SEEM TO HAVE SERIOUSLY AFFECTED THE OVERALL MANAGEMENT OF DOMESTIC MONETARY POLICY. UNQTE

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PARA 11. THIS PARA, PARTICULARLY THE FIRST TWO SENTENCES, SHOULD BE WRITTEN IN TERMS OF SPECIAL PROBLEMS FOR SOME, NOT ALL, OF THE SMALLER OECD COUNTRIES.

PARA 12. TO REFLECT POINTS BROUGHT OUT AT TWP MEETING, SUGGEST REPHRASING AS FOLLOWS: QTE ABOUT THREE-QUARTERS OF OIL PRODUCERS' INVESTMENTS IN 1974 ARE ESTIMATED TO HAVE BEEN IN SHORT TERM DEBT INSTRUMENTS. THESE

INVESTMENTS INITIALLY PUT HEAVY STRAINS ON THE INTERMEDIARY
ROLE OF THE COMMERCIAL BANKING SYSTEM IN THE RECYCLING
PROCESS SINCE THE DEMANDS COMING FROM OIL CONSUMING
COUNTRIES HAVE BEEN VERY LARGELY FOR LONGER TERM FUNDS.
AFTER SOME EARLY DIFFICULTY, HOWEVER, THE BURDEN OF
MATURITY TRANSFORMATION PLACED ON MEMBERS' DOMESTIC BANKS
AND THE EURO-BANKING SYSTEM WAS NOT FELT TO HAVE BEEN
EXCESSIVE. FURTHERMORE, ALTHOUGH A NUMBER OF OPEC COUNTRIES
CONTINUE TO SHOW A HIGH LIQUIDITY PREFERENCE IN THE
EXPECTATION THAT THEY WILL WISH TO USE THESE FUNDS FOR
DEVELOPMENT PURPOSES WITHIN THE NEXT FEW YEARS, THE LOW
ABSORBERS AMONG THE OPEC COUNTRIES APPEAR TO BE INVESTING
AN INCREASINGLY LARGE PERCENTAGE OF THEIR ACCUMULATIONS
IN LONGER TERM ASSETS AS THEIR CAPABILITY FOR MANAGING
AND DIRECTING A LARGE-SCALE INVESTMENT PROGRAM DEVELOPS.
UNQTE

PARA 13. THIS PARA COULD BE STRENGTHENED BY REFERENCES
TO THE POTENTIAL MONETARY IMPACT OF OPEC SURPLUSES, I.E.,
OPEC ACQUISITION OF RELATIVELY LIQUID CLAIMS ON THE REST
OF THE WORLD DO NOT (GENERALLY) HAVE AS THEIR COUNTERPART
AN EXPANSION OF THE MONETARY BASE OF THE COMMERCIAL
BANKING SYSTEM (AS WOULD BE THE CASE IF GERMANY WERE
ACQUIRING THE ASSETS).

PARA 14. WE WOULD QUESTION STATEMENT THAT LONGER TERM
OIL FUND INVESTMENTS HAVE BEEN "SOMEWHAT WEIGHTED IN FAVOR
OF INDUSTRIAL BLUE CHIP STOCKS AND COMMERCIAL PROPERTY
DEVELOPMENT." SUCH INFORMATION AS IS AVAILABLE TO US
SUGGESTS THAT THE OVERWHELMING PORTION OF LONGER TERM
INVESTMENTS BY THE OPEC COUNTRIES HAS BEEN IN GOVERNMENT-
TO-GOVERNMENT CREDITS, GOVERNMENT SECURITIES, BONDS ISSUED
BY GOVERNMENT AGENCIES OR NATIONALIZED INDUSTRIES AND LONG
TERM LOANS TO SUCH AGENCIES AND INDUSTRIES. DIRECT
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INVESTMENT HAS BEEN RELATIVELY INSIGNIFICANT ALTHOUGH A
FEW CASES HAVE DRAWN AN UNUSUAL DEGREE OF PUBLIC ATTENTION.

PARA 15. IF SPECIFIC REFERENCE IS TO BE MADE TO OTHER
COMMITTEES OF THE OECD, SUGGEST LIST BEGIN WITH EPC'S WP-3.

PARA 18. LAST SENTENCE PARA 18 SHOULD BE DROPPED OR
COUNTERBALANCED BY ADDITION FINAL SENTENCE ALONG FOLLOWING
LINES: QTE OTHERS EXPRESSED DOUBTS, HOWEVER, THAT IT
WOULD BE IN THE INTEREST OF OIL CONSUMING COUNTRIES TO
ADVANCE PROPOSALS FOR ANY TYPE OF EXCHANGE RATE GUARANTEE
SCHEMES. UNQTE

PARA 24. IT SEEMS TO US THAT THE FIRST THREE SENTENCES
OF THIS PARA SOUND TOO FORTHCOMING REGARDING INDEXATION

AND COULD BE DISPENSED WITH.

PARA 25. PENULTIMATE SENTENCE. SUGGEST DELETING CLAUSE
BEGINNING "PARTICULARLY." INGERSOLL

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